Attachment 3

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December 1, 2010

Dr. George Diehr
Chair, Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Asset Liability Workshop Update

Dear Dr. Diehr:

You requested Wilshire's opinion with respect to Staff's agenda item that follows up on the 2010 Asset Liability Workshop.

Recommendation

First, Wilshire recommends that the Investment Committee adopt the Alternative Asset Classification as an interim step toward a more comprehensive alternative framework in the future. Second, we have comments below regarding the alternative asset mixes proposed but we do not make any specific recommendation.

Discussion

First, the Alternative Asset Classification has been discussed at length over several recent meetings and we see no point to rehashing well-covered ground in this letter. The version of the classification presented in this agenda item appears to be unchanged from Staff's most recent proposal that the Investment Committee has previously discussed. We believe that the improvements we have suggested to this classification are well-known and Staff has stated that they are committed to continuing to work to improve this alternative classification over the next year. Therefore, we believe that it is appropriate for the Investment Committee to adopt the presented framework as an interim solution on the way to a final structure.

Second, at the Asset Allocation Workshop, the Investment Committee asked Staff to present several new asset mix options that were variations of asset allocation mixes A7 and A8 as presented at that meeting. As requested, Staff has supplied several variations that change the amount of “liquidity” assets, among other small changes.

While we do not recommend any specific asset allocation mix, we do believe that those options that Staff has presented are reasonable and prudent choices given the preferences expressed during the asset allocation workshop. We do wish to note that none of these variations of A7 or A8 represent a meaningful change from the current asset allocation mix. Given that the allocation to Private Equity was 14%, Real Estate was 10%, Commodities was 1%, etc., across almost all of the asset mixes, the decision presented to the Investment Committee really comes down to the split in public assets between equities and fixed income. Some members of the Investment Committee stated their preferences to “do things differently” or to “make real changes” on several occasions during the asset allocation process. Radical changes in the allocations to any of these asset classes, or the elimination of an asset class, was never presented or discussed. While we understand the need to select an asset allocation mix that meets or exceeds the actuarial rate, we also invite the Investment Committee to have a broader discussion of making significant changes to the asset allocation if it so chooses.

Please let us know if you have any questions or comments.

Best regards,